

# Preparations for a Brexit IV: views from Austria, the Czech Republic, Finland, Greece, and Malta

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27/05/2016

*If Britain votes to leave the EU it will have to negotiate its exit and a new post-withdrawal relationship with the EU. Often overlooked in the UK's debate is the fact that any exit agreement and new relationship will have to be agreed by the remaining 27 EU member states and the European Parliament. What positions might they take in the negotiations? The LSE's BrexitVote blog is running a series of overviews from each member state and the European Parliament setting out what positions they might take. Written by authors based at universities and research institutions across Europe, and compiled by the LSE's [Tim Oliver](#), the overviews build on an [introductory piece](#) in which Tim Oliver set out the various negotiations the EU will undertake in the event of a British exit. This post is the fourth in the series and gives views from Austria, the Czech Republic, Finland, Greece, and Malta.*



Entropa installation, by David Černý, on display in the Justus Lipsius building in Brussels; photo Marek Blahuš

## Austria: Making use of UK-EU tensions for domestic purposes

So far public debate in Austria about Brexit has been very limited. This is very much due to the fact that Austrian domestic politics attracts more media and public attention than the question of whether or not the UK should remain in the EU. Whenever the Brexit issue is raised, it is often from a British perspective rather than one that analyzes the potential impact on the EU in general and on Austria in particular. That said, tensions in UK-EU relations have created opportunities for changes in Austrian views and approaches to the EU.

In general, Austria favours continued membership of the UK in the EU. When it came to the UK-EU renegotiation earlier this year, the official Austrian position was best described as support for whatever might improve the quality of the European integration process without changing its core pillars. For this reason Austria supported efforts to curb benefit tourism and improve the EU's economic governance. In economic relations the impact of a Brexit would be much higher for the UK than for Austria due to the low levels of trade between the two countries. As a result, the negative effects of a Brexit on the Austrian economy would be limited and there would be new possibilities for the small number of Austrian enterprises who would need to make up for any loss from reduced trading links with the UK.

The strongest support for a Brexit comes from Eurosceptic and anti-European parties who use the referendum debate as they did the UK-EU renegotiation: to support their argument that the European integration process needs to be re-adjusted and that more power should be given back to Austria and other Member States. This can clearly be seen in Austria's current presidential debate in which the anti-European candidate repeatedly makes references to the way the UK is dealing with EU issues and that Austria should follow this example. So it is not surprising that a possible Brexit would give new impetus to existing critical public opinion in Austria on EU matters. This would not necessarily lead to another exit debate but would definitely redefine Austria's position within the EU. At the same time, the pro-European government and pro-European parties also view the whole Brexit debate as a possibility for re-adjusting certain policy options in the EU and in Austrian-EU relations as a means to tackle rising popularity and support for populist and Eurosceptic opposition parties.

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### **The Czech Republic: A united Europe is the priority**

The overall aim of Czech EU policy is set out in the official EU strategy of the Czech government: "An Active and Intelligible Czech Republic in a United Europe". The Czech government fears that a Brexit could open a Pandora's box of similar intentions in other EU member states, including the Czech Republic itself. At a time when citizens' trust in the EU is very low and Eurosceptic parties and movements are on the rise, Brexit would demonstrate that something hitherto considered inconceivable is possible. That said, while the Czech government will seek to protect European integration from the fallout from a Brexit, it will also be conscious of several other factors linking the UK to the EU and Czech Republic

The Czech Republic and the United Kingdom share similar opinions on many areas of EU policies, such as completion of EU single market, liberal trade policy, and reducing administrative burdens so as to increase the competitiveness of the European Union. As the UK's role in Czech foreign trade has been increasing for years and the British export market was the fourth most important for the Czech Republic in 2015, Brexit could potentially have a negative impact on the Czech economy. Therefore, if the UK votes to leave, it would be crucial for the Czech Republic to seek the UK's close cooperation with EU countries not only in the area of the internal market, but also in international trade policy. Moreover, the UK's withdrawal would negatively influence EU regional policy. As a net beneficiary of EU money from structural funds, it would be key for the Czech Republic that the EU-UK agreement be similar to the arrangement with other non-EU members in the European Economic Area.

The Czech Republic as well as the UK have been keen promoters of a strong transatlantic link in the EU's Foreign and security policy. Therefore, the Czech Republic would seek to establish close relations with the UK in this area in order to maintain effective cooperation between the EU and NATO.

There are an estimated 45,000 Czech citizens living in the UK. Hence, in negotiations over the UK's withdrawal, the Czech government would insist on guarantees of non-discrimination of Czech workers in the UK.

Despite the above, it is worth making clear that the Czech Republic has always regarded the United Kingdom as

one of the most important EU member states and partner of the Czech Republic. It therefore strongly supports its continued membership in the EU.

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### **Finland: Seeking good EU-UK relations, but the EU is the first priority**

Viewed from Helsinki, a Brexit would result in substantial economic and political costs which are difficult to quantify. The UK's traditional support for reducing intra-EU trade barriers and promoting free trade arrangements with third countries have made the UK a natural ally of Finland. Finland also values the UK's emphasis on pragmatic EU decision-making in Brussels. No gains for Finland or the EU have therefore been identified in the political and expert discussions in Finland about Brexit.

Should the UK decide to leave, and exit negotiations commence, a constructive and pragmatic approach will probably emerge in Helsinki. Yet any agreement is likely to be assessed vis-a-vis existing arrangements of economic and political association with the EU as well as what is compatible with the EU Treaties.

Although slowly decreasing, the UK's share of Finnish foreign trade is significant. Avoiding disruption to trade and economic links more broadly will be a Finnish priority. Finland would also aim to find pragmatic solutions to questions about Finnish-UK migration. Given the small numbers involved this should not be a difficult question.

In terms of the EU's foreign and security policy, the UK's departure would be seen as a setback. Yet Brexit is not seen as likely to change the UK's and other NATO members' fundamental security priorities. As a non-NATO member, Finland might also hope that the UK remains supportive of efforts to further develop the EU foreign and security policy, although the UK's doubts about developing EU structures in this field are known in Helsinki.

Finnish positions would also reflect an assessment of the broader economic and political implications of a major member state leaving the EU. In this regard, Finland would most likely attempt to strike a balance between a good and well-functioning EU-UK relationship, and unity and cohesion among the remaining EU27.

Finland has invested a lot politically and economically in the European Union. This includes stabilization of the single currency of which Finland is a member, unlike the UK and other Nordic EU members. The EU is also seen to have positive (yet largely in-direct) security implications for Finland in an increasingly challenging security environment. Thus the viability of European integration will more than likely be the first priority for Finland in the event of UK exit.

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### **Greece: Concerns about the unity of the EU and Eurozone**

The fundamental position of Greece is that the UK should stay in the European Union. This is grounded on Athens' concern that if British citizens vote 'NO' in the referendum and no new compromise is found at the EU level, the structure of Europe will completely change and more countries might want to leave or could be expelled either from the EU or the Eurozone. Although the successful completion of the first review of the third Greek bailout in May 2016 removed renewed fears for a Grexit, a Brexit can open the Aeolus bag. Disagreements between the Eurozone and the IMF on a final settlement for the Greek debt might in the future fuel new crises between any Greek government and its creditors.

As a matter of principle Greece is not particularly satisfied with the nature of the EU-UK deal and Donald Tusk's



proposals on economic governance as well as on social benefits and free movement. In July 2015, for instance, Britain contributed to Greece's bridge loan and such a possibility will not be feasible in the future. Additionally, restrictions in social benefits and free movement harm EU values and might generate an extreme European debate that could turn against Greece in a period during which several countries close their borders blocking the Balkan corridor and challenging the idea of European solidarity.

Greece played no active role in negotiations between the EU and the UK which led to the compromise of February 2016. The country is not expected to significantly influence any exit negotiations after 23 June. Its main priority, however, will be to push for guarantees that Greek employees in the UK will not be disadvantaged as well as to preserve the harmonious economic co-operation between the two countries. In parallel, the Greek government will have no alternative but to carefully proceed to the implementation of necessary remaining structural reforms in the framework of the third bailout in order to show to its partners that it remains committed to an ever closer union and seeks to be in its core.

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### **Malta: One of the countries likely to be most affected by a Brexit**

A Fitch Report of 16 May named Malta as one of a group of EU member states which are most likely to be negatively affected by Brexit. According to the report, the most exposed countries would be Ireland, Malta, Belgium, the Netherlands, Cyprus and Luxembourg, all of whose exports of goods and services to the UK are at least 8% of GDP. EU countries could gain from the shift of some FDI from the UK to the EU. However, countries such as Luxembourg, Malta, Belgium and Germany, with a large stock of FDI and financial assets in the UK, would **suffer losses** in the euro value of those assets in the event of a permanent depreciation of sterling. The assumption is that Brexit is most likely to trigger economic uncertainty and drive the value of sterling down. But what about the euro? Would uncertainty about the effects of Brexit not cause a downward pressure on the euro?

A weak sterling would also hurt Malta's tourist sector by making it more expensive for Britons to travel to the island. In 2015, 1.8 million tourists visited the island which has a population of 425,000 leaving an estimated €1.6 billion in the economy. Of these, 526,089 or 29.4% of total arrivals came from the UK. This is by far the largest group of inbound tourists by nationality.

But there are other more ominous threats that may affect Malta negatively in the event of Brexit. Take EU tax harmonization where decisions are taken by unanimity. Britain has so far slammed the breaks on harmonization and Malta's tax regime has benefitted from this. But were Britain to leave the Union, it is unlikely that Malta will have the power and influence to successfully oppose further tax harmonization. Tax harmonization is strongly opposed by Malta in the Council of the EU and for good reason. It is considered as one of the factors that help attract foreign investment to the island particularly in financial services, online gaming and more.

Former Prime Minister and MEP Dr Alfred Sant has repeatedly warned that EU tax harmonization hurts Malta's interests. What he has in mind is that harmonization to counter tax evasion and tax competition, ends up hurting peripheral countries and islands which have few other economic endowments to spur on their economic growth. Dr Sant argues that smaller and peripheral EU countries should not be denied the flexibility that they still enjoy in tax matters.

During the membership negotiations, Malta succeeded in negotiating a temporary derogation from the EU VAT Directive permitting it not to charge VAT on food and medicines. Ireland and the UK enjoy a similar permanent derogation. Malta's derogation was due to expire in 2010, but in 2009 the island succeeded in prolonging it indefinitely on the basis of a declaration which had been attached to the Accession Treaty stating that "Malta's

acceptance of a transition period until 1 January 2010 for the maintenance of its VAT 0% rate instead of the standard rate of 5% on the supplies of foodstuffs and pharmaceuticals is based on the premise that the transitional period referred to in Article 28(1) of the Sixth VAT Directive would expire on that day.”

In the event that the UK leaves the EU, it may prove difficult for Malta and Ireland to successfully fend off attempts to end this derogation.

Apart from these tax related issues, there are several others which merit attention. For historic reasons, UK universities are the most popular amongst Maltese citizens seeking further study abroad. The Maltese pay the same level of fees as UK and EU citizens – and not the much higher ones reserved for third country nationals. But this is unlikely to continue once Britain leaves the EU – unless of course measures are taken to safeguard it as part of an eventual EU-UK Association ( or whatever) agreement.

Similar arguments can be made in the case of health. A reciprocal health agreement between the UK and Malta allows UK citizens, particularly expats settled in Malta, to access the health services and Maltese citizens to obtain treatment in UK hospitals beyond what is offered under the EU's European Health Insurance Card (EHIC) scheme. There are also close links between the Maltese and UK health professions and several Maltese health specialists work in the UK Health system and / or obtain their specialist training there. These ties could be seriously jeopardized if Brexit leads to Maltese citizens beginning to be considered as third country nationals. In the meantime the number of UK citizens applying to join the Medical course in Malta has been rising steadily in recent years without the need of much advertising since EU citizens do not pay university fees in Malta. Brexit could also slam this door shut, in which case the pressure building up on Malta's Medical School would ease to the detriment of potential British applicants.

The possible effects of Brexit have not sunk in the Maltese mind set which remains blissfully oblivious to the possible shakeups that it might provoke in Maltese society – depending of course on what kind of exit agreement Britain manages to negotiate. However, the authorities are well aware of the pitfalls and a strategy is probably already in place on how to deal with the most ominous of them.

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*This post represents the views of the authors and not those of BrexitVote, nor the LSE. Image: [David Černý – Entropa Map](#)*

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